

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7041

BILL NUMBER: HB 1256

NOTE PREPARED: Jan 20, 2012

BILL AMENDED:

SUBJECT: Income Tax Exemptions.

FIRST AUTHOR: Rep. VanDenburgh

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that income received by an individual who is at least 65 years of age (or by the spouse of such a taxpayer in the case of a joint return) is exempt from state income tax if the individual's household federal adjusted gross income for the taxable year is not more than \$50,000. It provides that a taxpayer who claims this exemption for a taxable year is not entitled to claim any other deduction, exemption, or credit from the adjusted gross income tax for that taxable year. It provides that an individual who is at least 65 years of age and does not claim such an exemption is entitled to a \$500 state income tax exemption (rather than a \$1,000 exemption under current law). It deletes the current \$500 income tax exemption for elderly taxpayers with an adjusted gross income of less than \$40,000. It provides a \$1,000 state income tax exemption for taxpayers who are totally deaf. It also makes technical corrections.

Effective Date: January 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new deductions and elimination of current deductions. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: The bill makes the following changes.

- (1) It establishes a total exemption from individual adjusted gross income (AGI) tax for taxpayers who are 65 years old or older with federal AGI of \$50,000 or less.
- (2) It establishes a \$1,000 individual AGI tax exemption for taxpayers who are totally unable to hear in both

ears, even with the use of a hearing aid or cochlear implant.

(3) It lowers from \$1,000 to \$500 the current individual AGI tax exemption for taxpayers who are 65 years old or older and applies that exemption to taxpayers whose federal AGI exceeds \$50,000.

(4) It eliminates the current individual AGI tax exemption equal to \$500 for taxpayers who are 65 years old or older with Indiana adjusted gross income less than \$40,000.

These changes would be effective beginning in tax year 2013. Consequently, the fiscal impact would likely begin in FY 2014. The net revenue loss from these changes is summarized in the table below.

Provision	Revenue Gain (Loss) (in millions of dollars)
(1) New Total Exemption for Elderly Taxpayers with Federal AGI of \$50,000 or Less	(150.2)
(2) New Exemption for Deaf Taxpayers	(0.9)
(3) Lower Exemption for Elderly Taxpayers with Federal AGI Exceeding \$50,000	3.7
(4) Elimination of Current Low Income Elderly Exemption	9.2
Total	(138.2)

The revenue estimates are based simulations using taxpayer counts and amounts claimed under current exemptions, and tax liabilities of taxpayers to be fully exempt under the bill, from 2008 and 2009 tax return data. The percentage change in total tax revenue under these simulations is applied to an estimate of FY 2014 individual AGI tax revenue. The FY 2014 estimate is based on the Revenue Technical Committee Forecast (December 14, 2011) and assumes the long run average annual growth rate in income tax revenue equal to about 3.8%. The estimate for the \$1,000 exemption for deaf taxpayers is based on U.S. Census Bureau estimates of the population percentage nationally with severe hearing disabilities.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because of the exemptions changes taxable income will be changed, with a net overall decrease in taxable income. Consequently, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.4%, the potential impact on LOIT collections on a statewide basis beginning in FY 2014 is summarized in the table below.

Provision	Revenue Gain (Loss) (in millions of dollars)
(1) New Total Exemption for Elderly Taxpayers with Federal AGI of \$50,000 or Less	(64.9)
(2) New Exemption for Deaf Taxpayers	(0.4)
(3) Lower Exemption for Elderly Taxpayers with Federal AGI Exceeding \$50,000	1.5
(4) Elimination of Current Low Income Elderly Exemption	3.8
Total	(60.0)

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA Income Tax Databases, 2008-2009. *Americans with Disabilities: 2005*, Appendix B, Table B-1, Prevalence of Disability Among Individuals 15 Years and Older by Specific Measures of Disability: 2005, U.S. Census Bureau. Revenue Technical Committee Forecast, December 14, 2011.

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